



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

20-06

FINANCIAL-COMPLIANCE AUDIT

*Office of the
Commissioner of Higher
Education*

*For the Two Fiscal Years Ended
June 30, 2020*

JANUARY 2021

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

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January 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is the financial-compliance audit report of the Office of the Commissioner of Higher Education (office) for the two fiscal years ended June 30, 2020, and 2019.

The office's financial schedules are generated from the primary accounting system. The office's management is responsible for the notes to the financial schedules.

We issued an unmodified opinion on the financial schedules for the two fiscal years ended June 30, 2020. The issuance of an unmodified opinion means the reader can rely on the information presented and the underlying accounting records for decision-making purposes.

This audit report includes five audit recommendations to the office. We identified instances of noncompliance with state laws, including allowing University foundation employees to participate in the MUS Insurance Program, and areas where internal controls should be improved.

The office's written response to the audit is included in the audit report on page C-1. We thank the Commissioner and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

		<u>Location</u>	<u>Term Expires</u>
Board of Regents of Higher Education	Casey Lozar, Chair	Helena	February 1, 2025
	Paul Tuss, Vice Chair	Havre	February 1, 2027
	Joyce Dombrowski	Missoula	February 1, 2026
	Robert A. Nystuen	Lakeside	February 1, 2022
	Brianne Rogers	Bozeman	February 1, 2024
	Martha Sheehy	Billings	February 1, 2021
	John Miller, Student Regent (fiscal year 2020 only)	Missoula	June 30, 2020
	Amy Sexton, Student Regent (began July 1, 2020)	Billings	June 30, 2021
	Clayton Christian, Commissioner of Higher Education*		
	Steve Bullock, Governor*		
	Elsie Arntzen, Superintendent of Public Instruction*		
	*Ex officio members		

Office of the Commissioner of Higher Education	Clayton Christian	Commissioner of Higher Education
	Brock Tessman	Deputy Commissioner for Academic and Student Affairs
	Tyler Trevor	Deputy Commissioner for Budget and Planning, Chief of Staff
	Helen Thigpen	Montana University System (MUS) Acting Chief Legal Counsel, Deputy Commissioner
	Kevin McRae	Deputy Commissioner, Human Resources
	Ron Muffick	Director of Operations and Administration
	Diedra Murray	MUS Internal Auditor
	Shauna Lyons	MUS Budget Analyst
	Jamie Dushin	Accounting Manager
	Lindsey Mueller	Accounting and Student Assistance Analyst

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MONTANA LEGISLATIVE AUDIT DIVISION

Office of the Commissioner of Higher Education

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

The Office of the Commissioner of Higher Education is the central administrative unit of the Montana University System (MUS) and the Board of Regents (board). The office is responsible for providing quality and timely services to the board; government entities, including the Executive and Legislative branches; the public; media; students; staff; and others in the educational community, when they request information or assistance. The office administers and distributes state funds appropriated by the legislature for the support of the MUS. The office also distributes the state's assistance to Montana's tribal colleges for attendance of non-tribal Montana resident students.

The Montana Constitution confers governance authority over the MUS to the board, but vests the power to appropriate state funds to the legislature. The board consists of seven appointed and confirmed members and three ex officio members. The Constitution directs the board in appointing a Commissioner of Higher Education to serve as its executive staff.

In addition to distributions for the support of the MUS, the office also administers the MUS Group Insurance Program, MUS Workers' Compensation Program, and a variety of federal programs.

During our audit, we found noncompliance with state law prohibiting University foundation employees from participating in the MUS Insurance Program. There are approximately 163 foundation employees currently enrolled in the insurance program and receiving benefits, as compared to 16,000 total employees and dependents on the plan. We also found various items where internal controls could be improved, including material weaknesses regarding the recording of agency assets and creation of the notes to the financial schedules. The office spent approximately \$126,000 in Coronavirus Aid Relief, and Economic Security (CARES) Act money in fiscal year 2020 and were given responsibility of over \$20 million in CARES money in fiscal year 2021. They were also given responsibility of over \$6 million in the Governor's Emergency Relief Fund in fiscal year 2021.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found that the office's financial schedules presented fairly the activity of the office in all material respects and we have issued unmodified opinions on the regulatory basis of accounting under which the financial schedules are presented. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the office's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the office: 5

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 5

Partially Implemented: 2

Not Implemented: 0

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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RECOMMENDATION #1 (page 7):

State Compliance

University foundation employees are participating in the Montana University System Insurance Program, contrary to state law.

Office response: **Concur**

RECOMMENDATION #2 (page 9):

Internal Control

Controls over Montana University System Insurance Program prescription rebate revenues should be strengthened.

Office response: **Concur**

RECOMMENDATION #3 (page 11):

Internal Control

Controls over the recording of financial information from the College Savings Program should be strengthened.

Office response: **Concur**

RECOMMENDATION #4 (page 12):

Internal Control

Controls over the 6 mill property tax collections completed by the Department of Revenue should be strengthened.

Office response: **Concur**

RECOMMENDATION #5 (page 13):

Internal Control

Controls over the preparation and review of the notes to the financial schedules should be strengthened.

Office response: **Concur**

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 2
Significant Deficiencies in Internal Control: 2
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Office of the Commissioner of Higher Education (office) for the two fiscal years ended June 30, 2020. The objectives of our audit were to:

1. Obtain an understanding of the office's internal control systems to the extent necessary to support our audit of the office's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls.
2. Determine whether the office complied with selected, applicable state laws and regulations.
3. Determine whether the office's financial schedules present fairly the results of its operations and changes in fund equity for the fiscal years ended June 30, 2019, and June 30, 2020.
4. Determine the implementation status of prior audit recommendations.

During the audit, we focused our audit effort on appropriations and distributions to university units and transactions related to insurance premiums paid by employees of the universities for health-care coverage. We also tested the support for the College Savings Plan account balances, as well as compliance with selected, applicable state laws, and reviewed expenditures in the General Fund and Federal Special Revenue Fund in order to determine the implementation status of the prior audit recommendations.

In accordance with §17-8-101(6), MCA, we analyzed the fees and charges for services and the fund equity balance in the office's internal service fund. The internal service fund is used to record indirect costs associated with the office's various federal programs like the Educational Talent Search (ETS) grant and the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) awards. In order to complete this analysis, we looked at revenues compared to expenses. We also considered working capital at fiscal year-end as one way to decide if fund equity is reasonable. Working capital is defined as the amount of cash that would remain if all of the current assets were converted, and all of the current liabilities paid, at their book value and is considered reasonable if it is less than 60 days, as required by federal regulation.

See the table below for our consideration and conclusions:

Table 1 <u>Summary of Conclusions on Fees and Fund Equity for the Office's Internal Service Fund</u>		
	FY 2019	FY 2020
Fees commensurate with costs?	No	Yes
Fund equity balance reasonable?	No	Yes
Excess working capital, in days	10	NA
Source: Compiled by Legislative Audit Division from auditor calculations.		

The office's federal activity has changed drastically with the ending of the federal funding related to the Guaranteed Student Loan Program. Therefore, it is difficult to determine the rate to comply with federal regulations, because the historical data is no longer relevant. The office works with their federal liaison during their annual indirect cost plan. Because the fund self-corrected in fiscal year 2020, we make no recommendation.

Background

The office is the central administrative unit of the Montana University System (MUS) and the Board of Regents (board). The office is responsible for providing quality and timely services to the board; government entities, including the Executive and Legislative branches; the public; media; students; staff; and others in the educational community, when they request information or assistance. The office administers and distributes state funds appropriated by the legislature for the support of the MUS.

Per §2-15-1505, MCA, the board consists of seven members appointed by the Governor and confirmed by the Senate. One of the members is a registered full-time MUS student appointed by the Governor, who serves a one-year term. The other board members serve seven-year, overlapping terms. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex officio nonvoting members. Article X, Section 9 of the Montana Constitution gives the board the authority to appoint and prescribe the duties of the Commissioner of Higher Education.

The MUS is comprised of the University of Montana, which has four primary campuses along with three embedded two-year colleges, and Montana State University, which has four primary campuses and two embedded two-year colleges. MUS also includes three community colleges. The Montana Constitution extends governance authority over the MUS to the board. This authority includes supervising, coordinating, managing,

and controlling the MUS, and supervising and coordinating other public educational institutions assigned by law.

The following programs or activities that are presented on the Schedule of Expenditures & Transfers-Out are explained below. The Agency Funds, Appropriation Distribution, Board of Regents-Administration, Community College Assistance, Improving Teacher Quality, and Tribal College Assistance programs do not have approved full-time equivalent (FTE) employees. These programs are administered primarily through the Administration Program.

Administration Program (23.28 FTE) provides general administration for all office duties, including academic, student assistance, financial, human resources, legal, and labor relations.

Appropriation Distribution and **Agency Funds** accounts for the state's General Fund distributions and the State Special Revenue Fund millage distributions to the MUS campuses.

Board of Regents Administration provides administrative support, including travel and meals per diem for the board's members.

Community College Assistance accounts for the distribution of the state's assistance to the community colleges.

Educational Outreach & Diversity (18.24 FTE) includes programs intended to decrease the dropout rate of low-income and at-risk students at the secondary school level and increase enrollment in the post-secondary education level. The programs that provide these services are the Gaining Early Awareness & Readiness for Undergraduate Programs, Educational Talent Search, and the American Indian/Minority Achievement.

Montana Guaranteed Student Loan (GSL) Program (4.20 FTE) promotes student financial aid, financial literacy, and affordability initiatives across the MUS. The GSL program administers financial literacy grants, targeted financial aid grants, the Free Application for Federal Student Aid (FAFSA) Completion Initiative, and supports campus financial literacy education programs and other initiatives aimed at improving college affordability as determined by the board.

Improving Teacher Quality was a federal program that provided funding for professional development and training to improve teaching methods and skills in the classroom; this program ended in fiscal year 2019.

MUS Group Insurance Program (7.00 FTE) is a self-funded insurance plan available to eligible MUS employees and retirees. The plan provides group benefits; including medical, dental, vision, and life insurance, as well as, flexible spending accounts.

MUS Workers' Compensation Program (1.00 FTE) is a self-funded workers' compensation program provided to eligible MUS employees for work-related injuries that are incurred accidentally through the course of employment.

Student Assistance Program (2.00 FTE) consists of grants, loans, loan repayment programs, professional student exchange programs, and work-study programs; including state matching dollars for the federal Supplemental Education Opportunity Grant; the Perkins Federal Loan Program; the Western Montana Commission on Higher Education Professional Student Exchange Program; the Washington, Wyoming, Alaska, Montana, and Idaho Cooperative Medical Education Program; the Minnesota Dental Program; the Montana Rural Physician Incentive Program; the Montana Institutional Nursing Incentive Program; and the Washington, Idaho, Montana, Utah Regional Program in Veterinary Medicine.

The Tribal College Assistance Program accounts for the distribution of the state's assistance to the seven Montana tribal colleges for attendance of nontribal Montana resident students.

Work Force Development Program (3.00 FTE) supports vocational education at the secondary and post-secondary education levels. The office administers federal Vocational Education grants. The amounts used at the secondary level are sub-granted to the Office of Public Instruction.

The office spent approximately \$126,000 in Coronavirus Aid Relief, and Economic Security (CARES) Act money in fiscal year 2020 and were given responsibility of over \$20 million in CARES money in fiscal year 2021. They were also given responsibility of over \$6 million in the Governor's Emergency Relief Fund in fiscal year 2021.

Prior Audit Recommendations

The prior audit resulted in seven recommendations to the office. We determined that the office fully implemented five recommendations and partially implemented two recommendations.

Three of the recommendations in the prior audit report are related to the documentation of travel and meal expenditures. We reviewed a variety of expenditures and determined these recommendations were fully implemented. The prior audit

also included recommendations related to telework agreements and internal controls over MUS Insurance census data. We determined these recommendations were fully implemented.

Two of the prior audit recommendations recommended the office strengthen internal controls related to the Montana Family Education Saving Program Bank Plan and the preparation of the notes to the financial schedules to ensure accuracy and completeness. We determined these prior audit recommendations are partially implemented, so we discuss these issues further in Recommendations #2 and #5 on pages 9 and 13, respectively.

Chapter II – Findings and Recommendations

Eligibility for MUS Insurance Program

The Board of Regent’s policy and current practice to allow nonprofit employees to participate in the MUS group health insurance program is contrary to state law.

The Montana University System (MUS) Group Insurance Program is a self-funded insurance plan for MUS employees and retirees. The program provides medical, dental, vision, and life insurance benefits, where the MUS system assumes the risk of paying claims. Sections 20-25-1301 and 2-18-702 (5), MCA, allow the MUS to develop group benefits plans for employees of the MUS and their dependents. Under Board of Regent’s policy adopted in June 1984 and updated March 2012, employees of the following nonprofit entities related to the MUS are also allowed to participate in the MUS Group Insurance Program:

- ◆ MSU Foundation
- ◆ UM Foundation
- ◆ Montana Tech Foundation
- ◆ Maureen and Mike Mansfield Foundation
- ◆ International Heart Institute of Montana Foundation
- ◆ MSU Bookstore
- ◆ Northern Alumni Foundation

We believe including people on the plan who are not MUS employees results in noncompliance with state law. As most of the entities above are MUS foundations, we will refer to them collectively as “foundation” going forward.

Historically, office staff believed §2-18-702(1)(a), MCA, which states the plan is “for the benefit of their officers and employees and their dependents” allows foundation employees to participate in the plan, because the practice benefits MUS employees. In addition, the office noted the foundations would not exist if it was not for the university system. The board and the office considered this relationship so interrelated that the foundation employees were eligible for the MUS insurance program benefits. This practice is supported by Board of Regent’s policy.

The foundations pay the employer contribution of \$1,054 per month for employees and dependents who work 20 or more hours per week, regardless of whether the employee participates in the plan. There are 163 foundation employees currently enrolled in the

insurance program and receiving benefits, as compared to 16,000 total employees and dependents on the plan. We are unable to determine the impact foundation employee contributions and medical costs have on the employer rates paid by the university system. It is unclear if foundation employee participation provides a financial benefit or burden for the plan. Such a determination would require the services of an actuary and could vary greatly from period to period.

We reported a disclosure issue related to nonprofit foundation participation in the plan in our 1997 and 1999 audit reports of the office. We also noted that in 1997, the State Auditor provided an opinion on including non-MUS employees. The State Auditor concluded allowing non-MUS employees to participate in the plan violated state law, but also noted the non-governmental groups participating in the University System plan at the time should be allowed to continue to participate. According to the office, additional entities began participating in the plan since the State Auditor's opinion.

The State Auditor's opinion also dealt with the question on whether the MUS Insurance Plan's inclusion of non-MUS employees subjects the plan to Title 33, MCA. Since the opinion, Chapter 54, Laws of 2011, specifically exclude the plan from the requirements of Title 33, MCA, but the State Auditor may still be a resource in determining how to best comply with state law. Title 33 regulates insurance and insurance companies in Montana via oversight by the State Auditor.

The Employee Retirement Income Security Act of 1974 (ERISA) may apply, because the office is including private entities. This federal law describes standards for pension plans, welfare benefits like health and life insurance, apprenticeship plans, and disability insurance. Office personnel indicated the plan is exempt from ERISA because it is a self-funded governmental plan, and was created by a governmental entity. Recent case law indicates certain governmental plans allowing private entity participation are subject to ERISA depending on the facts and circumstances of the establishment and operation of those plans. It is unclear if the MUS plan's facts and circumstances exempt it from ERISA requirements. The office should work with both the US Department of Labor and the State Auditor to determine if the inclusion of private entities subjects the plan to the federal regulations establishing minimum standards for health plans in private industry.

We considered if community colleges were allowed on the plan and determined §17-7-102 (15), MCA, defines the community colleges at Miles City, Glendive, and Kalispell as part of the university system unit. As such, we did not take exception to community colleges participating in the plan.

The office agrees including the foundation employees is noncompliance with state law but is not sure of the best way to rectify the situation, as discontinuing coverage for foundation employees would impose hardship on these individuals. We considered the office's concerns and the concerns regarding continuation of coverage in the State Auditor's opinion. The original State Auditor's opinion on this matter was influenced by concerns regarding pre-existing conditions and other regulatory factors that existed in 1997. However, changes under the Affordable Care Act and other options under the Consolidated Omnibus Budget Reconciliation Act (COBRA) regarding continuation of benefits, could reduce these concerns and make it easier for the foundations to make alternative arrangements for their employees. Working with the legislature to update the law may also be an appropriate option, considering the commitment made by the plan to service the foundation employees in question. Either way, the office must comply with state law in administering the MUS Insurance Plan.

RECOMMENDATION #1

We recommend the Office of the Commissioner of Higher Education:

- A. *Comply with state law by only allowing MUS employees and their dependents to participate in the Montana University System Insurance Program, or*
 - B. *Work with the Legislature to update state law to include entities related to the MUS system in state laws related to the administering of the MUS Insurance Plan, and*
 - C. *Work with the State Auditor and the US Department of Labor to determine if the MUS Insurance Plan is subject to Employee Retirement Income Security Act regulations related to the inclusion of private entities.*
-

Internal Controls

State policy requires management to establish and maintain an effective internal control system over financial reporting. Internal control is a process, effected by an entity's oversight body, management, and other personnel, that provides reasonable assurance the objectives of an entity will be achieved. As summarized in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* on page B-1, the control deficiencies described in the four findings and recommendations below are either material weaknesses or significant deficiencies in internal controls.

MUS Insurance Revenue

Errors made in recording revenue accruals indicate a control weakness exists over MUS Insurance Program fiscal year-end entries.

The MUS Insurance Program (program) accrues revenue to record prescription rebates earned during the year. The rebates are discounts due to the MUS program in return for covering certain drug manufacturers' products. Accruals record revenue earned during the year, but not yet paid. As a result of errors made by the office in this accrual in both fiscal years 2019 and 2020, miscellaneous revenue in the Enterprise Fund is understated by \$2.6 million and \$1.7 million, respectively. The office disclosed the following errors to us as part of the audit:

- ◆ The rebate revenue was not accrued in fiscal year 2019. According to office personnel, they were unable to obtain sufficient documentation from the office's benefit division to support an accrual amount before fiscal year-end. In addition, there were no long-term trends to base an accrual on, because the prescription drug vendor was new in fiscal year 2018. However, estimates do not have to be exact. The office should have a plan in place to estimate this accrual. The office made a prior period adjustment in fiscal year 2020 to correct this error when they had the actual revenue information.
- ◆ The accrual recorded in fiscal year 2020 was accidentally reversed and decreased both the revenue and the accounts receivable instead of increasing it as intended. According to office personnel, the entry was reviewed, but the error was not caught in the review.

The fact that there were errors in both fiscal years during the fiscal year-end process indicates there is a control deficiency with the recording of this activity in the state's accounting system. Accruals generally happen only once a year, and they are estimates as the revenue amount earned is not certain. Therefore, they require a more detailed review than other accounting entries. The office should establish a final review of the accrual entry after it is posted in the state's accounting system but before the books close to ensure the entry ties to support and is entered accurately. This is a significant deficiency in internal controls, because it merits the attention of those charged with governance.

RECOMMENDATION #2

We recommend the Office of the Commissioner of Higher Education establish procedures for correctly recording the Montana University System Insurance Program prescription rebate revenue accrual.

Invested Assets

The office can continue to enhance controls to ensure the financial information recorded on accounting records for the Montana Family Education Savings Program–Bank Plan is accurate and complete.

The office administers approximately \$199 million in assets in its private purpose trust fund for college savings plans. There are two plans for managing the assets. The office receives a System and Organization Controls (SOC) 1 report from one program manager but not from the other. A SOC 1 report is a report on the controls at a service organization, which are relevant to user entities' internal control over financial reporting. The manager who does not provide a SOC 1 report is the Montana Family Education Savings Program–Bank Plan (plan). The plan is a legacy plan; the plan was closed to new enrollments and investments as of July 31, 2015. The plan has \$52 million and \$42 million in assets remaining at the end of fiscal years 2019 and 2020, respectively. The investments in the plan are nonnegotiable certificates of deposit. The assets are declining from year to year. Current activity consists of withdrawals by investors and interest earnings.

During the audit period, the office took steps to improve controls over assets at the plan, including:

- ◆ Hiring a consultant to assist in working with the plan.
- ◆ Performing a site visit of the service organization in fiscal year 2020.
- ◆ Reviewing audits and other reports related to the service organization.

However, none of the activities above included control assurance necessary for reliance on the information provided by the plan that is used to record the office's financial activity. The plan does not receive a SOC audit because it is not required by banking standards and is not likely to get one in the future. However, in October of 2020 the plan was able to obtain documentation of control testing completed by plan auditors in September of 2019 and January 2020. In order to resolve this issue for fiscal year 2021 and going forward, the office should review this control testing along with other analytics. For example, the office could develop and document expectations for the account balances with follow-up if the balances provided by the plan are outside of their expectations. We consider this internal control deficiency a material weakness due to the magnitude of the account balances. In addition, the office has a fiduciary responsibility for these plan assets.

RECOMMENDATION #3

We recommend the Office of the Commissioner of Higher Education continue to enhance internal controls by reviewing control testing and performing analytics to ensure the financial information received for the Montana Family Education Savings Program–Bank Plan is accurate and complete.

University Millage Revenue Collected by the Department of Revenue

The office should document controls to monitor millage revenue collections on behalf of the universities.

The office distributes General Fund and State Special Revenue Fund monies to the university system, the community colleges, and the tribal colleges. The amounts distributed out of the State Special Revenue Fund are millage revenues (property tax specific to support the university system) collected by the Department of Revenue and totaling over \$21 million in each of the two fiscal years ended June 30, 2020. The office does not have controls in place to determine if revenue collections by the Department of Revenue are complete and accurate, or to detect errors on a timely basis.

State policy defines the administering agency as having the primary responsibility to effectively manage funds. The office is the administering agency for the University Millage State Special Revenue account. This means the office is responsible for making sure the amount recorded on behalf of the universities is accurate and complete. The office staff report they monitor the cash to determine if revenue will come in lower or higher than the appropriation and they review Legislative Fiscal Division's (LFD) revenue updates to monitor actual revenues collected for property tax to provide reasonable assurance the amounts reported in the accounting system and financial schedules are accurate. The University Millage revenue was approximately \$300,000 below the appropriation in fiscal year 2020. The office notes they cannot access detailed data collected by the Department of Revenue, so the process to monitor the appropriated dollar amounts is the most efficient way to help ensure revenue amounts distributed to the universities are accurate.

However, the office could not provide documentation of their controls for us to determine if they are in place and designed to be effective. The office provided copies of LFD reports, but there was no documentation of their review. We cannot verify

a control if it is not documented. The office should document their expectations for the revenue and their request for follow-up documentation from the Department of Revenue if the actual cash received is outside of their expectations. This is a significant deficiency in internal control, because it merits the attention of those charged with governance. Without internal controls, the universities may not be receiving all tax revenue due to them.

RECOMMENDATION #4

We recommend the Office of the Commissioner of Higher Education document their process to ensure millage revenue collected by the Department of Revenue on behalf of the universities is complete and accurate and errors are detected on a timely basis.

Preparation and Review of Notes to the Financial Schedules

Continued improvements are needed in controls for preparation and review of financial schedule notes to prevent material misstatements.

During the prior audit, we recommended the office strengthen internal controls for the preparation of the notes to the financial schedules to ensure accuracy and completeness. During the audit, the office wrote a procedure, including reviews by office management and State Accounting Bureau. However, we continued to identify material misstatements in the notes.

The first draft of the notes followed the template provided by the Department of Administration but contained misstatements. For example, the budget authority disclosure related to the \$88 million of unspent budget authority in the Guaranteed Student Loan Program now disclosed in Note 8 was not in the original draft of the notes. The second draft of the notes contained a material misstatement as well. The MUS Self-Funded Workers' Compensation premium disclosure was misleading because it did not disclose that the worker's compensation revenue is only part of the Enterprise Fund revenue.

It takes experience to review the financial schedules and determine what items outside the template need to be disclosed, and staff members involved in drafting the notes are new to the audit process. The office should continue to strengthen their internal control process to make sure the notes are complete and relevant to the information

presented on the schedules. The financial schedules presentation is decided by the Legislative Audit Committee and are considered special purpose financial statements. As required by state policy, additional note disclosures may be necessary when special purpose financial statements contain items that are the same as, or similar to, those items included in financial statements prepared in accordance with Generally Accepted Accounting Principles. The office could consider trading note review with another agency with experience in the note drafting process. Because material misstatements were not prevented and detected on a timely basis, we consider this issue a material weakness in internal control.

RECOMMENDATION #5

We recommend the Office of the Commissioner of Higher Education strengthen internal controls for preparation of the notes to the financial schedules to ensure accuracy and completeness.

Independent Auditor's Report and Office Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out for the two fiscal years ended June 30, 2020, of the Office of the Commissioner of Higher Education, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the office's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the office, as of June 30, 2020, and June 30, 2019, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity of the Office of the Commissioner of Higher Education for each of the fiscal years ended June 30, 2020, and 2019, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October, 23, 2020, on our consideration of the Office of the Commissioner of Higher Education's internal control

over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 23, 2020

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2019	\$ 12,742	\$ 5,918,237	\$ 4,448,617	\$ 82,846,157	\$ (328,306)	\$ 211,387,757
ADDITIONS						
Budgeted Revenues & Transfers-In	1,643,406	2,200,484	10,277,660	119,151,196	557,484	17,351,727
Nonbudgeted Revenues & Transfers-In	23,831	880,679	1,984	909,858		
Prior Year Revenues & Transfers-In Adjustments	237,782,233	(580)	(859,079)	2,634,401		
Direct Entries to Fund Equity	239,449,469	23,792,245		80,700	32,463	
Total Additions		26,872,829	9,420,565	122,776,155	589,947	17,351,727
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	239,322,646	25,639,682	10,744,392	105,107,942	584,903	29,176,162
Nonbudgeted Expenditures & Transfers-Out	3,050	703,941	2,938	(125,613)	(193,105)	
Prior Year Expenditures & Transfers-Out Adjustments	107			212,062	371	
Total Reductions	239,325,804	26,343,622	10,747,329	105,194,391	392,168	29,176,162
FUND EQUITY: June 30, 2020	\$ 136,407	\$ 6,447,444	\$ 3,121,852	\$ 100,427,922	\$ (130,527)	\$ 199,563,322

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2018	\$ 630,739	\$ 4,492,636	\$ 5,025,337	\$ 72,152,310	\$ (311,650)	\$ 214,911,473
ADDITIONS						
Budgeted Revenues & Transfers-In	1,489,285	1,601,567	10,640,002	115,828,161	499,572	
Nonbudgeted Revenues & Transfers-In	18	1,006,070	2,592	905,857	19	19,699,376
Prior Year Revenues & Transfers-In Adjustments	22,671	(313)	(346)	(4,392)		
Direct Entries to Fund Equity	224,783,560	22,768,604		33,609	3,598	
Total Additions	226,295,533	25,375,929	10,642,247	116,763,235	503,189	19,699,376
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	226,910,481	22,807,740	11,216,030	106,121,963	473,146	
Nonbudgeted Expenditures & Transfers-Out	3,050	1,142,588	2,938	(52,575)	46,699	23,223,092
Total Reductions	226,913,530	23,950,328	11,218,967	106,069,387	519,845	23,223,092
FUND EQUITY: June 30, 2019	\$ 12,742	\$ 5,918,237	\$ 4,448,617	\$ 82,846,157	\$ (328,306)	\$ 211,387,757

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Taxes	\$ 1,642,673	\$ (1,529)	\$ 811				\$ 1,641,955
Charges for Services		1,266,479	1,050				1,267,529
Investment Earnings	24,564	68,349	57,332	\$ 2,887,638		\$ (926,064)	2,111,820
Contributions and Premiums				116,418,824		18,277,791	134,696,615
Grants, Contracts, and Donations		880,000					880,000
Transfers-In		727,285	126,218				853,503
Federal Indirect Cost Recoveries					\$ 557,484		557,484
Miscellaneous		140,000	56	3,388,993			3,529,049
Federal			9,235,098				9,235,098
Total Revenues & Transfers-In	1,667,237	3,080,584	9,420,565	122,695,455	557,484	17,351,727	154,773,052
Less: Nonbudgeted Revenues & Transfers-In		880,679	1,984	909,858		17,351,727	19,144,248
Prior Year Revenues & Transfers-In Adjustments	23,831	(580)	(859,079)	2,634,401			1,798,573
Actual Budgeted Revenues & Transfers-In	\$ 1,643,406	\$ 2,200,484	\$ 10,277,660	\$ 119,151,196	\$ 557,484	\$ 0	\$ 133,830,231

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COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Taxes	\$ 1,511,956	\$	\$ 727	\$	\$	\$	\$ 1,514,760
Charges for Services	18	1,177,622	2,077	50	19		1,177,709
Investment Earnings		101,540	100,232	3,339,835		3,535,778	7,077,385
Contributions and Premiums				111,281,572		16,163,598	127,445,170
Grants, Contracts, and Donations		904,000					904,000
Transfers-in		327,286					327,286
Federal Indirect Cost Recoveries					499,572		499,572
Miscellaneous		96,150		2,108,170			2,204,320
Federal			10,539,938				10,539,938
Total Revenues & Transfers-In	1,511,974	2,607,325	10,642,247	116,729,626	499,591	19,699,376	151,690,139
Less: Nonbudgeted Revenues & Transfers-In	18	1,006,070	2,592	905,857	19	19,699,376	21,613,932
Prior Year Revenues & Transfers-In Adjustments	22,671	(313)	(346)	(4,392)			17,620
Actual Budgeted Revenues & Transfers-In	\$ 1,489,285	\$ 1,601,567	\$ 10,640,002	\$ 115,828,161	\$ 499,572	\$ 0	\$ 130,058,587

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Administration Program	Agency Funds	Appropriation Distribution	Board of Regents- Administration	Community College Assistance	Education Outreach & Diversity	Guaranteed Student Loan Program	MUS Group Insurance Program	MUS Workers Comp Program	Student Assistance Program	Tribal College Assistance Program	Work Force Development Program	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	\$ 2,516,928					\$ 635,696	\$ 25,632	\$ 526,561	\$ 77,571	\$ 82,633		\$ 216,426	\$ 4,081,446
Other Compensation				\$ 2,100									2,100
Employee Benefits	621,282					271,126	11,107	41,765	26,247	28,266		80,768	1,080,562
Personal Services-Other	(30,374)							19,362	3,796				(7,216)
Total	<u>3,107,836</u>			<u>2,100</u>		<u>906,822</u>	<u>36,738</u>	<u>587,688</u>	<u>107,614</u>	<u>110,900</u>		<u>297,194</u>	<u>5,156,891</u>
Operating Expenses													
Other Services	491,668			43,980		373,518	816,074	7,323,246	734,997	1,011,443		4,902	10,799,826
Supplies & Materials	97,084			777		95,225	6,597	6,074	632	4,668		812	211,870
Communications	44,359			7		15,066	2,743	21,688	834	10		2,415	87,123
Travel	56,024			11,755		127,118	1,227	37,136	1,308	1,012		13,687	249,267
Rent	127,266					52,864	14,462	58,671	8,677			28,924	290,865
Repair & Maintenance	6,666					1,771							8,437
Other Expenses	250,286			(1,285)		855,021	389,028	795,023	302,713	5,505		34,969	2,631,259
Goods Purchased For Resale	60												60
Total	<u>1,073,412</u>			<u>55,234</u>		<u>1,520,584</u>	<u>1,230,131</u>	<u>8,241,838</u>	<u>1,049,162</u>	<u>1,022,638</u>		<u>85,709</u>	<u>14,278,708</u>
Local Assistance													
From State Sources	48,567				\$ 13,765,066					156,000			13,969,633
Total	<u>48,567</u>				<u>13,765,066</u>					<u>156,000</u>			<u>13,969,633</u>
Grants													
From State Sources										10,491,359	\$ 1,012,875		11,504,234
From Federal Sources						1,914,044						1,968,739	3,882,783
From Other Sources										1,169,235			1,169,235
Total						<u>1,914,044</u>				<u>11,660,594</u>	<u>1,012,875</u>	<u>1,968,739</u>	<u>16,556,252</u>
Benefits & Claims													
To Individuals								21,229	(1,050,394)				(1,029,166)
Insurance Payments								<u>96,250,729</u>					<u>96,250,729</u>
Total								<u>96,271,958</u>	<u>(1,050,394)</u>				<u>95,221,564</u>
From Other Sources													
Distrib from Priv Purp Trusts										28,418,383			28,418,383
Total										<u>28,418,383</u>			<u>28,418,383</u>
Transfers-out													
Fund transfers	19,522		\$ 914,769			110,531						3,282,692	4,327,514
Intra-Entity Expense	71,915	\$ 29,545,197	203,644,185										233,261,297
Total	<u>91,437</u>	<u>29,545,197</u>	<u>204,558,954</u>			<u>110,531</u>						<u>3,282,692</u>	<u>237,588,812</u>
Debt Service													
Capital Leases	3,050						2,938						5,987
Total	<u>3,050</u>						<u>2,938</u>						<u>5,987</u>
Post Employment Benefits													
Other Post Employment Benefits	481							1,270	181				1,932
Employer Pension Expense	(3,759)							(14,926)					(18,685)
Total	<u>(3,278)</u>							<u>(13,657)</u>	<u>181</u>				<u>(16,753)</u>
Total Expenditures & Transfers-Out	\$ <u>4,321,024</u>	\$ <u>29,545,197</u>	\$ <u>204,558,954</u>	\$ <u>57,334</u>	\$ <u>13,765,066</u>	\$ <u>4,451,980</u>	\$ <u>1,269,807</u>	\$ <u>105,087,828</u>	\$ <u>106,563</u>	\$ <u>41,368,514</u>	\$ <u>1,012,875</u>	\$ <u>5,634,335</u>	\$ <u>411,179,476</u>
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 3,445,206	\$ 28,440,373	\$ 181,650,963	\$ 57,334	\$ 13,765,066	\$ 140,276				\$ 10,718,994	\$ 1,012,875	\$ 94,717	\$ 239,325,804
State Special Revenue Fund	357,347	1,104,824	22,907,991				\$ 500,103			1,473,358			26,343,622
Federal Special Revenue Fund	126,303					4,311,704	769,704					5,539,619	10,747,329
Enterprise Fund								\$ 105,087,828	\$ 106,563				105,194,391
Internal Service Fund	392,168												392,168
Private Purpose Trust Fund										29,176,162			29,176,162
Total Expenditures & Transfers-Out	<u>4,321,024</u>	<u>29,545,197</u>	<u>204,558,954</u>	<u>57,334</u>	<u>13,765,066</u>	<u>4,451,980</u>	<u>1,269,807</u>	<u>105,087,828</u>	<u>106,563</u>	<u>41,368,514</u>	<u>1,012,875</u>	<u>5,634,335</u>	<u>411,179,476</u>
Less: Nonbudgeted Expenditures & Transfers-Out	13,782						503,040	(129,881)	4,268	29,176,162			29,567,372
Prior Year Expenditures & Transfers-Out Adjustments	478							211,941	121				212,541
Actual Budgeted Expenditures & Transfers-Out	<u>4,306,763</u>	<u>29,545,197</u>	<u>204,558,954</u>	<u>57,334</u>	<u>13,765,066</u>	<u>4,451,980</u>	<u>766,766</u>	<u>105,005,767</u>	<u>102,174</u>	<u>12,192,351</u>	<u>1,012,875</u>	<u>5,634,335</u>	<u>381,399,564</u>
Budget Authority	4,744,427	29,905,341	205,138,845	67,350	13,765,066	9,487,849	2,400,691	149,638,723	4,668,448	13,646,735	1,012,875	6,422,434	440,898,784
Unspent Budget Authority	<u>\$ 437,664</u>	<u>\$ 360,144</u>	<u>\$ 579,891</u>	<u>\$ 10,016</u>	<u>\$ 0</u>	<u>\$ 5,035,869</u>	<u>\$ 1,633,925</u>	<u>\$ 44,632,956</u>	<u>\$ 4,566,274</u>	<u>\$ 1,454,384</u>	<u>\$ 0</u>	<u>\$ 788,099</u>	<u>\$ 59,499,220</u>
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 346,777		\$ 286,723	\$ 10,016	\$ 0	\$ 65				\$ 377,108		\$ 0	\$ 1,020,690
State Special Revenue Fund	49,871	\$ 360,144	293,168							1,077,275			1,780,458
Federal Special Revenue Fund	15,187					5,035,804	\$ 1,633,925					788,098	7,473,014
Enterprise Fund								\$ 44,632,956	\$ 4,566,274				49,199,229
Internal Service Fund	25,828												25,828
Unspent Budget Authority	<u>\$ 437,664</u>	<u>\$ 360,144</u>	<u>\$ 579,891</u>	<u>\$ 10,016</u>	<u>\$ 0</u>	<u>\$ 5,035,869</u>	<u>\$ 1,633,925</u>	<u>\$ 44,632,956</u>	<u>\$ 4,566,274</u>	<u>\$ 1,454,384</u>	<u>\$ 0</u>	<u>\$ 788,099</u>	<u>\$ 59,499,220</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Agency Funds	Appropriation Distribution	Board of Regents- Administration	Community College Assistance	Education Outreach & Diversity	Guaranteed Student Loan Program	Improving Teacher Quality	MUS Group Insurance Program	MUS Workers Comp Program	Student Assistance Program	Tribal College Assistance Program	Work Force Development Program	Total
Personal Services														
Salaries	\$ 2,188,394					\$ 574,241	\$ 36,638		\$ 531,095	\$ 75,349	\$ 86,851		\$ 167,646	\$ 3,660,214
Other Compensation				\$ 3,360										3,360
Employee Benefits	655,072					253,041	14,487		139,311	25,055	32,685		54,910	1,174,561
Personal Services-Other	(3,797)								(4,282)	(785)				(8,864)
Total	<u>2,839,669</u>			<u>3,360</u>		<u>827,282</u>	<u>51,125</u>		<u>666,124</u>	<u>99,618</u>	<u>119,537</u>		<u>222,556</u>	<u>4,829,271</u>
Operating Expenses														
Other Services	615,639			24,269		959,213	184,694		7,244,505	661,226	962,526		5,833	10,657,905
Supplies & Materials	68,918			858		98,066	553		29,619	805	6,326		6,104	211,250
Communications	74,486			7		14,983	2,518		16,180	500	22		1,078	109,774
Travel	62,966			15,667		115,802	962		67,207	709	321		16,766	280,402
Rent	127,441					54,034	14,462		59,646	8,677			28,924	293,185
Repair & Maintenance	6,815					85								6,900
Other Expenses	310,909			3,585		1,838,865	625,690		797,723	496,200	184,887		10,349	4,268,208
Total	<u>1,267,173</u>			<u>44,387</u>		<u>3,081,049</u>	<u>828,879</u>		<u>8,214,881</u>	<u>1,168,118</u>	<u>1,154,082</u>		<u>69,055</u>	<u>15,827,624</u>
Equipment & Intangible Assets														
Equipment	9,705													9,705
Total	<u>9,705</u>													<u>9,705</u>
Local Assistance														
From State Sources					\$ 12,856,403						153,000			13,009,403
Total					<u>12,856,403</u>						<u>153,000</u>			<u>13,009,403</u>
Grants														
From State Sources											9,471,690	\$ 837,875		10,309,565
From Federal Sources						1,589,500		\$ 103,042					2,019,689	3,712,231
From Other Sources											1,189,860			1,189,860
Total						<u>1,589,500</u>		<u>103,042</u>			<u>10,661,549</u>	<u>837,875</u>	<u>2,019,689</u>	<u>15,211,655</u>
Benefits & Claims														
To Individuals									295,720	2,618,266				2,913,987
Insurance Payments									93,014,163					93,014,163
Total									<u>93,309,883</u>	<u>2,618,266</u>				<u>95,928,150</u>
From Other Sources														
Distrib from Priv Purp Trusts											22,375,595			22,375,595
Total											<u>22,375,595</u>			<u>22,375,595</u>
Transfers-out														
Fund transfers	22,178		\$ 914,769			174,139	1						3,105,080	4,216,166
Intra-Entity Expense		\$ 28,572,825	191,846,216											220,419,041
Total	<u>22,178</u>	<u>28,572,825</u>	<u>192,760,985</u>			<u>174,139</u>	<u>1</u>						<u>3,105,080</u>	<u>224,635,207</u>
Debt Service														
Capital Leases	3,050													5,987
Total	<u>3,050</u>							<u>2,938</u>						<u>5,987</u>
Post Employment Benefits														
Other Post Employment Benefits	1,099								2,621	359				4,079
Employer Pension Expense	68,958								(10,485)					58,473
Total	<u>70,057</u>								<u>(7,864)</u>	<u>359</u>				<u>62,552</u>
Total Expenditures & Transfers-Out	\$ <u>4,211,832</u>	\$ <u>28,572,825</u>	\$ <u>192,760,985</u>	\$ <u>47,746</u>	\$ <u>12,856,403</u>	\$ <u>5,671,970</u>	\$ <u>882,942</u>	\$ <u>103,042</u>	\$ <u>102,183,025</u>	\$ <u>3,886,362</u>	\$ <u>34,463,763</u>	\$ <u>837,875</u>	\$ <u>5,416,379</u>	\$ <u>391,895,150</u>
EXPENDITURES & TRANSFERS-OUT BY FUND														
General Fund	\$ 3,288,223	\$ 27,263,147	\$ 172,961,625	\$ 47,746	\$ 12,856,403	\$ 129,426					\$ 9,439,024	\$ 837,875	\$ 90,061	\$ 226,913,530
State Special Revenue Fund	401,708	1,309,678	19,799,360				637,935				1,801,647			23,950,328
Federal Special Revenue Fund	2,056					5,542,543	245,008	\$ 103,042					5,326,318	11,218,967
Enterprise Fund									\$ 102,183,025	\$ 3,886,362				106,069,387
Internal Service Fund	519,845													519,845
Private Purpose Trust Fund											23,223,092			23,223,092
Total Expenditures & Transfers-Out	<u>4,211,832</u>	<u>28,572,825</u>	<u>192,760,985</u>	<u>47,746</u>	<u>12,856,403</u>	<u>5,671,970</u>	<u>882,942</u>	<u>103,042</u>	<u>102,183,025</u>	<u>3,886,362</u>	<u>34,463,763</u>	<u>837,875</u>	<u>5,416,379</u>	<u>391,895,150</u>
Less: Nonbudgeted Expenditures & Transfers-Out	375,402						640,872		(51,931)	(644)	23,402,092			24,365,791
Prior Year Expenditures & Transfers-Out Adjustments														
Actual Budgeted Expenditures & Transfers-Out	<u>3,836,430</u>	<u>28,572,825</u>	<u>192,760,985</u>	<u>47,746</u>	<u>12,856,403</u>	<u>5,671,970</u>	<u>242,070</u>	<u>103,042</u>	<u>102,234,957</u>	<u>3,887,006</u>	<u>11,061,672</u>	<u>837,875</u>	<u>5,416,379</u>	<u>367,529,359</u>
Budget Authority	4,045,937	28,578,115	193,412,943	67,951	12,856,403	11,767,491	88,398,360	754,555	160,672,229	6,386,704	14,412,708	837,875	6,312,024	528,503,293
Unspent Budget Authority	\$ <u>209,507</u>	\$ <u>5,290</u>	\$ <u>651,958</u>	\$ <u>20,205</u>	\$ <u>0</u>	\$ <u>6,095,521</u>	\$ <u>88,156,290</u>	\$ <u>651,513</u>	\$ <u>58,437,272</u>	\$ <u>2,499,698</u>	\$ <u>3,351,036</u>	\$ <u>0</u>	\$ <u>895,644</u>	\$ <u>160,973,934</u>
UNSPENT BUDGET AUTHORITY BY FUND														
General Fund	\$ 18,708			\$ 20,205		\$ 351					\$ 77,882		\$ 6	\$ 117,153
State Special Revenue Fund	45,880	\$ 5,290	\$ 651,958								3,273,154			3,976,281
Federal Special Revenue Fund	15,272					6,095,170	\$ 88,156,290	\$ 651,513					895,638	95,813,883
Enterprise Fund									\$ 58,437,272	\$ 2,499,698				60,936,970
Internal Service Fund	129,647													129,647
Unspent Budget Authority	\$ <u>209,507</u>	\$ <u>5,290</u>	\$ <u>651,958</u>	\$ <u>20,205</u>	\$ <u>0</u>	\$ <u>6,095,521</u>	\$ <u>88,156,290</u>	\$ <u>651,513</u>	\$ <u>58,437,272</u>	\$ <u>2,499,698</u>	\$ <u>3,351,036</u>	\$ <u>0</u>	\$ <u>895,644</u>	\$ <u>160,973,934</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Office of the Commissioner of Higher Education

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Accounting

The office uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the office records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the office to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the office receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

The office uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust) fund categories. Under the accrual basis, as defined by state accounting policy, the office records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment, except that amounts are rounded to the nearest dollar and therefore may not total due to rounding.

The office uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. This includes funds appropriated for

general operations of the office and distributions to the university units, tribal, and community colleges for their general operations.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. This includes the University Millage Account for distributions to the campuses, the Rural Physicians Account for the Montana Rural Physicians Incentive Program, the STEM Scholarships Account which provides funding for STEM Scholarships, the Motorcycle Safety Training Account for the Montana Motorcycle Rider Safety Program, and the Family Ed Savings Admin Fee for the 529 College Savings Plan. In addition, there are several state special revenue accounts dedicated for research purposes.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. This includes the Montana Guaranteed Student Loan Program (MGSLP) agency operating funds, the Vocational Education – Basic Grants to States (Carl D. Perkins Federal Grant), the Educational Talent Search (ETS) grant, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) award, and the newly established Coronavirus Aid Relief, and Economic Security (CARES) Act funding.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. This includes the MUS Group Insurance Program and the MUS Workers' Compensation Program.
- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The office's Internal Service Fund is used to fund internal central service type costs through an approved indirect cost rate.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. This fund accounts for the Montana Family Education Savings Program.

2. General Fund Equity

The office has authority to pay obligations from the statewide General Fund within its appropriation limits. The office's total assets placed in the fund exceed the outstanding liabilities, resulting in positive ending General Fund equity balances for the fiscal years ended June 30, 2019, and June 30, 2020. These balances reflect the results of the activity of the office and not the fund equity balance of the statewide General Fund.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by the state's accounting system (SABHRS) to reflect the flow of resources within individual funds shared by separate agencies. The office distributes General Fund and State Special Revenue Fund monies to the units of the university system, the community colleges, and the tribal colleges. These expenditures are shown on the Schedules of Total Expenditures & Transfers Out as Intra-Entity Expense in the Agency Funds Program and the Appropriations Distributions Program, as Local Assistance from State Sources Expense in the Community College Assistance Program, and Grants from State Sources in the Tribal College Assistance Program. However, the activity that collects the cash to make the distributions is the responsibility of another state agency, resulting in a direct entry to fund balance to reflect the use of the same fund by separate agencies.

Section 15-10-108, MCA, directs the legislature to levy property taxes to support, maintain, and improve the Montana University System. The state treasurer collects university property tax revenue and records it in a shared State Special Revenue Fund between the office and the Department of Revenue. These collections do not appear on the Schedule of Total Revenues & Transfers-In but are the source of the distributions. As a result, a direct entry to fund equity is reported on the Schedule of Changes in Fund Equity to reflect this flow of resources.

Direct entries to fund equity in the General, Internal Service, and Enterprise funds include a change in the accounting methodology used in regard to the OPEB GASB 75 Statement. These direct entries took place in FY2020; however, it took into consideration all prior years' activity. The General Fund direct entry to fund equity amounted to \$4,966, the Internal Service Fund amounted to \$501, and the Enterprise Funds amounted to \$1,491.

4. Related Party Transactions

There are campus-affiliated foundations within the Montana University System (MUS) as identified in the Montana Board of Regents of Higher Education Policy

901.9 – Campus-Affiliated Foundations; Montana University System Foundation. The private foundations affiliated with campuses of the MUS provide support to their respective campuses, consistent with the mission and priorities of such campus. As such, transactions occur between the Commissioner of Higher Education and said foundations as reimbursements for hosting MUS constituents and other related events and gatherings. These transactions do not affect the financial statements in any way; however, total such transactions were \$7,323 and \$2,759 in FY 2019 and FY2020, respectively. Amounts differ each year based on the number of activities and events hosted in each of those fiscal years.

In addition, the MUS Group Insurance Program offers insurance coverage and receives insurance premiums from other related parties such as the campus-affiliated foundation and the community colleges. This premium revenue for campus-affiliated foundations and the community colleges approximately amount to \$6.44M and \$6.52M in FY2019 and FY2020, respectively; these amounts are held under the Enterprise Fund on the Schedule of Total Revenues & Transfers-In financial schedule as Contributions and Premiums, where the MUS Workers' Compensation premiums are also held (total amount under Enterprise Fund of \$111,282,572 and \$116,418,824 in FY2019 and FY2020, respectively).

The Montana Higher Education Student Assistance Corporation (MHESAC), is a nonprofit corporation who shares common goals and interconnected missions with the Montana University System, including college access and student success for Montana Students. MHESAC has no employees and its business operations are managed by the Student Assistance Foundation (SAF). A Board of Regents board member is also a MHESAC Board of Directors member, an OCHE staff member is a MHESAC officer, and the Commissioner of Higher Education is an Ex-Officio member of the board. The Montana University System, MHESAC and the Student Assistance Foundation have entered into a joint project for an online college and career planning portal. The portal and its content are being jointly developed by MUS and MHESAC, with SAF performing the majority of the daily portal revisions on behalf of the organizations. The portal will house a single application to apply to all of Montana's public colleges and also includes information about scholarships, financial aid, trade schools, dual enrollment, and career planning. Estimated cost of the joint project is \$50,000.

5. Use of Estimates

State law requires the office to record financial transactions in conformity with generally accepted accounting principles (§17-1-102, MCA) and this requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

The MUS Group Insurance Program and MUS Self-Funded Workers' Compensation Program utilize estimates based upon actuarial reports and external consultation. Accordingly, actual results could differ from those estimates.

In FY2019, the MUS Self-Funded Workers' Compensation Committee adopted premium rates based on an actuarial estimate of premiums needed to pay its workers' compensation obligations incurred during FY2019. However, the Committee approved a workers' compensation premium holiday for FY2019 as it used existing funds to meet its workers' compensation obligation needs during the fiscal year. This is due to the fact that there were more funds in reserves than was necessary. The collection of premium revenues recommenced at the beginning of FY2020. The MUS Self-Funded Workers' Compensation premiums (\$0 in FY2019 and \$3,624,693 in FY2020) is held under the Enterprise Fund on the Schedule of Total Revenues & Transfers-In financial schedule as Contributions and Premiums, where the MUS Group Insurance premiums are also held (total amount under Enterprise Fund of \$111,281,572 and \$116,418,824 in FY2019 and FY2020, respectively).

In FY2020, the MUS Self-Funded Workers' Compensation Program adjusted its estimated claims payable, current as well as noncurrent, based on an actuarial incurred but not reported (IBNR) calculation. Due to this fact, the net result created a credit of \$1.05M in claims expenditures rather than a standard debit amount.

6. Prior Period Adjustments

The prior period adjustment for the year ended June 30, 2020, was made to the MUS Group Insurance Program Enterprise Fund in the amount of \$2,644,942. This amount regarded prescription rebate revenues earned during FY2019, therefore both the miscellaneous revenue and fund equity were understated by this amount in FY2019 under the Enterprise Fund.

In early September 2020 (FY2021), an FYE2020 journal for the accrual of prescription rebates for the MUS Group Insurance Program was identified as having the debit and credit signs transposed. Therefore, the miscellaneous revenue and fund equity for the Enterprise Fund for FY2020 were understated by \$1,675,705. In September 2020, a correcting journal was processed as a prior period adjustment to correct this misstatement. As such, the FY2020 financial statements do not include this correction as they will be in the FY2021 financial statements as a prior period adjustment.

Had the prescription rebates been recorded appropriately at the end of each fiscal year 2019 and 2020 and no prior period adjustments had to have been made regarding these

rebates, the miscellaneous revenue on the Schedule of Total Revenues & Transfers-In under the Enterprise Fund would have been as follows:

	<i>FY2019</i>	<i>FY2020</i>
<i>Miscellaneous Revenue</i>	\$2,108,170 \$4,753,112	\$3,388,993 \$5,064,698

7. Subsequent Events

On March 27, 2020 the Coronavirus Aid Relief, and Economic Security (CARES) Act was signed into law. The CARES Act was established to aid state, local, and tribal governments that have been negatively impacted by the COVID-19 pandemic outbreak. It is aiding the office through the means of the Coronavirus Relief Fund (CRF) as well as the Governor's Emergency Education Relief (GEER) Fund. In June 2020 (FY2020), the office was appropriated \$126,218 of CRF to reimburse expenses related to COVID-19. So far in FY2021, the office has been appropriated \$20,000,000 in CRF and \$6,730,000 in GEER.

In October 2020, the MUS Self-Funded Workers' Compensation Program increased its estimate of noncurrent liability by \$550,000. This revision was based on input it received from its independent auditor in October regarding accounting criteria for recording results from an actuarial analysis of prior year asbestos exposure claims. The revised liability is reflected in the MUS Workers' Compensation Program's audited FY2020 financial statements, however this is not reported in the Commissioner of Higher Education's financials for the fiscal year ended June 30, 2020.

8. Unspent Budget Authority

MGSLP had \$88,156,290 in unspent budget authority at the end of FY2019. This is due to the transfer of the student loan servicing portion to an approved servicer in FY2018. In addition, FY2019 was the second year of the biennium and the request to reduce the authority would and did occur during the 2019 Legislative Session.

The MUS Group Insurance Program had \$58,437,272 and \$44,632,956 in unspent budget authority in FY2019 and FY2020, respectively. This is because the program must always have sufficient authority to cover the projections of rising health care costs as well as in the event of any catastrophic claims. Since health care cost increases were minimal and there were no catastrophic claims in FY2019 or FY2020, there was remaining unspent budget authority.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Office of the Commissioner of Higher Education (office) for each of the fiscal years ended June 30, 2020, and 2019, and the related notes to the financial schedules, and have issued our report thereon dated October 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the office's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control. Accordingly, we do not express an opinion on the effectiveness of the office's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented or detected and corrected on a timely basis.

We consider the deficiencies described in the following table to be material weaknesses.

Subject of Material Weakness	Page in Report
Internal controls over invested assets.	11
Preparation and review of notes to the financial schedules.	13

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiencies described in the following table to be significant deficiencies.

Subject of Significant Deficiency	Page in Report
Internal controls over MUS Insurance Program revenue.	10
Internal controls over university Millage Revenue Collected by the Department of Revenue.	12

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the office's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Office of the Commissioner of Higher Education Response to Findings

The Office of the Commissioner of Higher Education's response to the findings identified in our audit are described on page C-1 of this report. The office's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the office's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the office's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 23, 2020

OFFICE OF THE
COMMISSIONER OF
HIGHER EDUCATION

OFFICE RESPONSE



MONTANA UNIVERSITY SYSTEM
OFFICE OF COMMISSIONER OF HIGHER EDUCATION

560 N. Park, 4th Floor – PO Box 203201 – Helena, Montana 59620-3201
(406) 449-9124 - FAX (406) 449-9171

January 18, 2021

Angus Maciver
Director
Legislative Auditor Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED
January 18, 2021
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

Thank you for the opportunity to review and respond to the financial-compliance audit report of the Office of the Commissioner of Higher Education (20-06). Please find attached our response and corrective action plan for each recommendation.

We want to express our appreciation for the hard work, professionalism, and consideration of our comments throughout the audit process. We look forward to acting on the recommendations and look to them as an opportunity to improve our operations and compliance.

Sincerely,

A handwritten signature in black ink, appearing to read "Clayton T. Christian".

Clayton T. Christian
Commissioner of Higher Education

OCHE Financial-Compliance Audit (20-06)
Written Response and Corrective Action Plan
January 18, 2021

This document includes OCHE's response and corrective action plan to the recommendations included in Legislative Audit Division's *Financial-Compliance Audit for the two fiscal years ended June 30, 2020 (20-06)*.

Recommendation #1:

We recommend the Office of the Commissioner of Higher Education:

- A. Comply with state law by only allowing MUS employees and their dependents to participate in the Montana University System Insurance Program, or
- B. Work with the Legislature to update state law to include entities related to the MUS system in state laws related to the administering of the MUS Insurance Plan, and
- C. Work with the State Auditor and the US Department of Labor to determine if the MUS Insurance Plan is subject to Employee Retirement Income Security Act regulations related to the inclusion of private entities.

OCHE Response: Concur.

OCHE concurs with this recommendation. OCHE will work towards implementation of this recommendation; however, due to the complexity of the issue, OCHE will develop a plan by March 15, 2021 that further defines steps and timelines for full implementation.

Planned Completion Date: Initial plan by March 15, 2021.

Recommendation #2:

We recommend the Office of the Commissioner of Higher Education establish procedures for correctly recording the Montana University System Insurance Program prescription rebate revenue accrual.

OCHE Response: Concur.

OCHE concurs with this recommendation. In October 2020, OCHE implemented additional controls including a fiscal year end checklist and account analysis. These controls will help ensure the prescription rebate revenue accrual is accurate and assist OCHE in identifying any accounting anomalies at fiscal year end.

Completed Date: October 15, 2020.

Recommendation #3:

We recommend the Office of the Commissioner of Higher Education continue to enhance internal controls by reviewing control testing and performing analytics to ensure the financial information received for the Montana Family Education Savings Program–Bank Plan is accurate and complete.

OCHE Response: Concur.

OCHE concurs with this recommendation. In fiscal year 2020 OCHE took steps to improve controls over the assets of the Montana Family Education Savings Program-Bank Plan. However, as stated by LAD, the plan does not receive a SOC audit. To help mitigate this control gap, OCHE obtained documentation from the plan's auditors to further review and obtain an understanding of its control testing. OCHE will continue this review, as well as review its own control processes to help ensure the information provided by the plan is reasonable based on OCHE's knowledge of program activity.

Planned Completion Date: June 30, 2021.

Recommendation #4:

We recommend the Office of the Commissioner of Higher Education document their process to ensure millage revenue collected by the Department of Revenue on behalf of the universities is complete and accurate and errors are detected on a timely basis.

OCHE Response: Concur.

OCHE concurs with this recommendation. OCHE currently monitors the university millage state special revenue account monthly and leverages Legislative Fiscal Division's revenue updates to monitor actual revenues collected for property tax. However, OCHE understands LAD's concern and documented these procedures in September 2020. OCHE's documented procedures include a description of how the office should document its expectations for revenue, as well as the process followed if actual cash received is outside of OCHE's expectations.

Completed Date: September 30, 2020.

Recommendation #5

We recommend the Office of the Commissioner of Higher Education strengthen internal controls for preparation of the notes to the financial schedules to ensure accuracy and completeness.

OCHE Response: Concur.

OCHE concurs with this recommendation. In fiscal year 2020, OCHE created an internal procedure to help guide those involved with the creation of notes to the financial schedules. OCHE will review its process, discuss financial statement preparation with another state agency, and look for additional opportunities to enhance internal controls related to the preparation of the notes.

Planned Completion Date: December 31, 2021.